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SUBJECT: AQABA SPECIAL ECONOMIC ZONE MAKES STRIDES, BUT
HURDLES REMAIN

SUMMARY

1. (SBU) The three-year-old Aqaba Special Economic Zone Authority (ASEZA) has made significant progress in promoting Aqaba's tandem appeal as a tourism destination and a well-equipped industrial hub friendly to foreign investors and the environment. ASEZA is based on King Abdullah's vision for Aqaba as a model of governance for Jordan, based on accountability and transparency. As such, ASEZA enjoys almost complete decentralization from Amman, controls municipal affairs in Aqaba, and owns 90 percent of the land in the 375 square km area. ASEZA is positioning itself to rival the neighboring Red Sea resort towns of Eilat and Sharm al-Sheikh, and key to ASEZA's economic goals is showcasing Aqaba as the gateway to the Iraqi market. Significant challenges to its economic development plan remain: attracting investment, creating jobs, improving communications with the local business community, and limiting the bureaucracy that manages its activities. Given the King's personal stake in Aqaba -- and the USG's significant financial investment in the project -- ASEZA's success has broader implications for Jordan's (and the U.S.) reform agenda.

This is the first of two messages resulting from a recent visit by ECON, PA, POL and USAID officers to Aqaba. The second will assess the social and regional challenges ASEZA faces as it enters its next phase of development. End Summary.

AQABA: A MODEL FOR JORDANIAN GOVERNANCE

2. (SBU) The transformation of the sleepy Red Sea port city of Aqaba into an economically vibrant and decentralized region under the guidance of the Aqaba Special Economic Zone Authority (ASEZA) continues to make significant strides since its establishment three years ago. As envisioned by King Abdullah and with significant assistance from USAID, ASEZA, the governing body of the zone, is mandated to manage, develop, regulate, and oversee the needs of 90,000 residents in the 375 square kilometer area (90 percent of which is owned by ASEZA). It promotes itself as a governance model for the country based on the principles of transparency and accountability. ASEZA Commissioners say they seek to maximize the benefits of the city's Gulf of Aqaba's port location to challenge the tourist appeal of its Red Sea neighbors in Eilat and Sharm al-Sheikh, as well as revitalize the industrial sector.

3. (SBU) ASEZA has assumed complete responsibility for municipal affairs and boasts many "firsts" among its accomplishments. ASEZA is the first model for decentralized authority from Amman. It is the first city to enforce a stringent environmental regime. It also is home to the first airport with an "open sky" policy. Aqaba is the first municipality in Jordan to separate its development arm, the Aqaba Development Corporation (ADC), from its regulatory body, ASEZA. It is also the first to establish an industrial park managed by an international firm.

4. (SBU) To infrequent visitors, the physical changes are obvious. Dozens of new shops, cafes, and restaurants have cropped up throughout Aqaba. The streets and public areas are well-kept and clean while manicured landscaping and attractive pedestrian areas dot the city. The public beach area is freshly groomed and new construction projects -- large and small -- abound. Several multi-level indoor shopping malls are under construction. The Lagoon Project, a massive \$500 million waterfront shopping, entertainment and residential complex due to open in 2008, represents the largest single source of foreign direct investment in Jordan's history.

DOING BUSINESS IN A DIFFERENT WAY

5. (SBU) Attracting investment and creating jobs is one of

ASEZA's top priorities, and it forecasts 5,000-10,000 new jobs in the Aqaba Qualified Industrial Zone and up to \$90 million in additional investment. To achieve these goals, ASEZA decided to spin off investment and commercial development responsibilities to the ADC so that ASEZA can focus more on regulating development, public health and safety, security and immigration, the environment, and public services. ASEZA Deputy Chief Commissioner and ADC Head Imad Fakhoury notes that an inherent conflict of interest exists when a single body is responsible for developing and regulating the interests of the business community.

16. (SBU) Industrial development has taken a new approach in Aqaba as well. A U.S.-based civil engineering subsidiary, Parsons Brinckerhoff International (PBI) Aqaba, is managing the USAID-built Aqaba International Industrial Estate (AIIE), and CEO Sheldon Fink notes that his company has taken a different approach than other industrial parks in Jordan, which have tended to build cookie-cutter factory shells and then seek to lease them. PBI Aqaba works with prospective investors to build process-specific factories from the ground up. One year after site delivery, the infrastructure for the first stage of the project is complete, and two factories are operational. PBI Aqaba is negotiating with at least six other prospective foreign investors, including an Indian garments producer from Dubai, a Turkish ceramics company, and an Israeli packaging firm.

17. (SBU) AIIE has its share of critics, however. Jamal Zaitoun, Vice President of Aqaba's Chamber of Commerce, complained that after a year, the industrial park has virtually nothing to show for its efforts. Local businessman Jamal Quteish minimized the criticism, however, saying that residents are impatient for more investment and to average people, building more factories equal more jobs, and thus provides proof that the economic development plan is yielding real benefits for locals. Fink noted that inaccurate press about AIIE also has contributed to its image problem.

POSITIONING AQABA TO SERVE THE IRAQ MARKET

18. (SBU) Increasing the capabilities of the Port of Aqaba will be key to ASEZA's success. Port Authority Director General Saud Soror underscored to EmbOffs that Aqaba is the main port of entry for Iraqi-bound goods, noting that dramatic increases in traffic after the Iraq war -- coupled by outdated and inadequate systems and equipment -- contributed to the port crisis last year. Despite the problems, the Port experienced a 25 percent increase in business in 2003. Aqaba's Port has three components: the main port (handles rice, cement, passengers, and roll-on/roll-off cargo); the container port (handled 300,000 containers in 2003); and the industrial port (handles potash, salt, and 18,000 tons of oil per day). To improve the capabilities of the container port, the ADC on March 9 signed a two-year USAID-brokered management contract with the Danish company APM Terminals. Soror noted, however, deficiencies in Jordan's transportation sector -- particularly road infrastructure and within the trucking industry -- is a major hurdle to developing Aqaba.

LACK OF CLARITY, COMMUNICATION RILES LOCALS

19. (SBU) In meetings with a wide range of businesspeople, politicians, community activists, and residents, most praised the King's vision for Aqaba and expressed an understanding for ASEZA's goals. However, they repeatedly expressed their frustration that they have little say in important decisions taken by ASEZA. Locals complain there is no mechanism for regular consultation, such as town hall meetings. Aqaba's members of Parliament appear to have taken the lead in criticizing ASEZA, a point that has not been lost on the Commissioners. Fakhoury acknowledges that relations with the local community could be better, and that ASEZA needs to reach out more. Outgoing Chief Commissioner Akel Biltaji gave EmbOffs a sense of the tensions between the two sides. He openly derided Aqaba's two MPs -- one of whom is an outspoken member of the Islamic Action Front -- while complaining about the developmental hurdles thrown up by the more conservative elements of the zone.

110. (SBU) Jobs are a major issue of contention. ASEZA officials say that finding qualified workers in Aqaba is difficult. Even once trained, local employees often do not meet expectations. They predict that 60 percent of factory labor will have to be imported, despite what they say have been sincere efforts to recruit locally. Fink notes that some locals resent working long hours and have not proven reliable (or retainable). However, during a meeting in his home, Aqaba MP and IAF member Shaykh Bader al-Riyati said that ASEZA is not taking advantage of a large pool of local capable workers, choosing instead to "import" employees from

Amman and put them up at hotels during the week while they fly back to Amman for the weekend, adding unnecessary costs to AZEZA's budget.

11. (SBU) The high salaries of ASEZA employees are also a major gripe. Businessman Ziyad al-Shweikh, a former member of Parliament and local businessman who is building one of the large shopping complexes in Aqaba, says that salaries of all the leaders in the previous government -- municipality, GID, PSD, and others -- combined equaled less than the ASEZA Chief Commissioner. Aqaba MP Dr. Mohammad al-Badri says his constituents regularly complain that ASEZA employees are receiving disproportionately high salaries compared to local employees holding similar jobs. According to al-Shweikh, an ASEZA employee earning 800 JD monthly would only earn 200 JD for the same job outside ASEZA. He says that residents have no outlet for their complaints and resort to grumbling among themselves or complaining to their MPs -- who themselves have a poor relationship with ASEZA.

INCREASED RED TAPE FRUSTRATES BUSINESS COMMUNITY

12. (SBU) EmbOfs heard repeated complaints that ASEZA's growing bureaucracy has complicated life for local businesspeople who claim that ASEZA still is a source of subsidized and non-market oriented services, including preferential treatment of businesspeople, and a top-down, non-consultative approach to regulation. Businesspeople said they have difficulty navigating the multitude of new laws and regulations, shared personal stories of exorbitant fees assessed for supposed code violations, and complained they have little recourse when seeking to protest a decision. Businessman al-Shweikh complained that before ASEZA, an entrepreneur could obtain permission within one day to begin a project. Now, it can take as long as 12 months. He said that he obtained his license for building his mall in 1995, but was required to reapply and pay additional fees upon ASEZA's establishment, which he understands. However, he currently is disputing in court more fees exceeding \$450,000 which he says ASEZA levied a year later. Despite his difficulties, he continues to laud ASEZA's goals, saying the organization's main weakness is poor communication.

13. (SBU) Despite efforts of the Commissioners to eliminate the "wasta" factor in doing business, the practice seems alive and well. President of the Aqaba Business and Professional Women's Club and director of public relations at the Movenpick hotel Lialli Nashashibi says that local residents frequently ask her to intervene on their behalf when they are unsuccessful in obtaining help or clarification from ASEZA offices. She says a more responsive attitude from ASEZA employees towards the public would go a long way in breaking down the image locals hold of ASEZA as an unapproachable and aloof institution. Several interlocutors say they are hopeful that the new ASEZA chief commissioner will improve the situation.

COMMENT

14. (SBU) The creation of ASEZA is by far the GOJ's boldest move to develop a prosperous economic foundation for political and social liberalization to flourish in Jordan. However, poor relations between ASEZA and the local business community and a failure to increase transparency and efficiency of ASEZA's functions provides an opening to ASEZA's critics, including Aqaba's members of Parliament. This point was hammered home during a recent visit to Aqaba by Prime Minister Faisal al-Fayez and members of his cabinet, who heard many of the same complaints from the local business community. Given the King's personal involvement in establishing ASEZA and USAID's significant financial investment in this experiment, the future success -- or failure -- of ASEZA will influence GOJ (and U.S.) reform efforts more broadly in Jordan.

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